



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

July 19, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Texas National Bank
Charter Number 23266**

**1150 West Main Street
Tomball, Texas 77375**

**Comptroller of the Currency
Houston Field Office
1301 McKinney Street, Suite 3410
Houston, Texas 77010**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

Texas National Bank (TNB) is responsive to the credit needs of its community, including low- and moderate-income individuals and small businesses located throughout the assessment area. The following factors support this conclusion:

- ❑ The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size and credit needs of its assessment area.
- ❑ A majority of the bank's loans and lending-related activities are within the assessment area.
- ❑ The distribution of loans within the assessment area to individuals of different income and businesses of different sizes meets the standard for satisfactory.

DESCRIPTION OF INSTITUTION

Texas National Bank (TNB) is a \$99 million full service bank with one location headquartered in Tomball, Texas. TNB is a subsidiary of a two-tiered holding company. The bank is owned 100% by Tomball Delaware Corporation, which is owned 100% by Texas National Bancshares, Inc. Subsidiaries include TNB Delaware Operating Company, TNB Texas Operating Company, Paloma Financial, L. P., and Lease Corporation of America.

TNB operates from one full-service banking location, which includes a drive-in facility and a cash dispensing ATM, located in Tomball, Texas. Banking hours are reasonable and meet the needs of the community, with regular lobby hours Monday through Thursday and extended lobby hours on Friday. The main office and drive-in also offer services on Saturday. To help meet the credit needs of its community, TNB offers a variety of loan and deposit products. In addition, the bank offers a wide variety of Internet based banking services including account inquiries, intrabank transfers, and bill pay services. The bank also offers an Internet based loan application that can be completed by the applicant and brought into the office.

As of June 30, 2004 net loans totaled \$90 million and represented approximately 90% of total assets. Lending is the bank's primary focus, and the bank offers a variety of loan products for small businesses and consumers. Texas National Bank also facilitates consumer credit through an indirect auto dealer loan program. At June 30, 2004, the indirect portfolio was \$37 million or 41% of loans. Based on the number and dollar amount of originations, the primary credit products include commercial real estate and consumer loans.

Loan portfolio composition is detailed in the following table.

LOAN PORTFOLIO COMPOSITION		
LOAN CATEGORY	\$(000)	%
Consumer Loans	\$41,955	46.51%
Commercial Real Estate	\$17,574	19.48%
Commercial Loans	\$16,224	17.99%
Residential Real Estate	\$6,964	7.72%
Construction and Land Development	\$6,140	6.81%
Other	\$1,249	1.38%
Agriculture Loans	\$102	.11%
TOTALS	\$90,208	100%

There are no financial or legal impediments that prevent TNB from meeting the credit needs of the community. The February 1999, CRA examination resulted in a satisfactory rating.

DESCRIPTION OF THE TOMBALL AREA

The assessment area (AA) meets the legal requirements of the Community Reinvestment Act (CRA) and does not arbitrarily exclude low- or moderate-income geographies. TNB is located in the Houston Metropolitan Statistical Area (MSA). However, the Houston MSA, which covers approximately 10 counties and has a total population in excess of 4 million, was not chosen as the AA. Instead, Management and the Board completed an analysis of loans and deposits and drew an AA that is within the bank's ability to service. The bank's designated assessment area (AA), commonly known as the Tomball Area, consists of 56 contiguous census tracts and covers portions of Waller, Harris, and Montgomery Counties. Located approximately 28 miles Northwest of Houston on State Highway 249, the Tomball Area functions as a commercial center for a large portion of Houston's rapidly growing Northwest quadrant. Total population of the AA is approximately 364 thousand. The AA is comprised of 16 middle-income tracts (28.57%), 39 upper-income tracts (69.64%), and 1 non-designated tract (1.79%). There are no low- or moderate-income tracts. Although the AA does not include any low- or moderate-income tracts, low- and moderate- income households are dispersed throughout the AA. According to the census data, there are approximately 15 thousand low-income households and 14 thousand moderate-income households. These account for 11.54% and 10.96% of total households in the assessment area, respectively. Major employers include Hewlett-Packard (14 thousand), Tomball Regional Hospital (1 thousand), Tomball Independent School District (999), Tomball College (400), and BJ Services Company (330). The area is also home to a number of small retail-oriented businesses.

Financial services competition in the Tomball Area is intense. In addition to a number of non-bank financial institutions, there are branches of regional and multinational corporations as well as branches of other financial institutions.

During this examination, we contacted a local community leader to inquire about the economic

conditions and credit needs of the AA. The contact was not aware of any credit needs that have not been addressed. Additionally, the contact spoke highly of all financial institutions operating in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review focused on the bank’s primary loan products, commercial real estate and consumer loans. We sample a minimum of 20 loans for each product line. All loans sampled for this analysis were originated between January 1, 2002 and June 30, 2004. In addition to the sample, we analyzed all existing loans by origination amount, using geo-coding reports provided by management. These reports were used to supplement the findings of our analysis where the additional information would provide meaningful information. Based on our analysis, TNB has demonstrated satisfactory performance in meeting the credit needs of the assessment area, including low- and moderate-income individuals and small businesses.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio exceeds the standards for satisfactory performance, and has averaged 107% since the last CRA examination as of February 1, 1999. The LTD ratio for 21 similarly sized banks headquartered in Harris, Montgomery, or Waller County averaged 73% over the same period.

The following table presents the LTD ratio for the bank and for the most similarly sized banks in Harris, Montgomery, and Waller County, as of March 31, 2004 (dollars in thousands):

Institution	City	Assets (\$000)	LTD
Texas National Bank	Tomball	94,913	115%
Texas Community Bank, N. A.	The Woodlands	70,093	98%
Enterprise Bank	Houston	107,676	90%
Concord Bank, N. A.	Houston	105,979	86%
Texas Premier Bank, N. A.	Brookshire	72,503	78%
The State Bank of Texas	Houston	93,937	61%
Redstone Bank, N. A.	Houston	105,981	50%
The Chasewood Bank	Houston	70,906	32%
Community National Bank	Bellaire	101,537	31%

Lending in Assessment Area

A majority of TNB’s lending volume is within the assessment area. We performed an analysis of lending patterns in the assessment area using internal reports provided by management. As illustrated by the table on the following page, by dollar 58% of the bank’s \$88 million loan portfolio is located within the assessment area. Only 38% of the bank’s loans by number are within the assessment area, due to TNB’s automobile lending program, which provides vehicle financing nation-wide. Exclusive of this lending product, 68% of the bank’s loans by number are within the assessment area.

Based on our findings, the TNB's performance meets the standards for a satisfactory rating, and reflects a satisfactory record of meeting assessment area credit needs.

Lending in Assessment Area										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$(000)	%	\$(000)	%	\$(000)
All Loans	1,250	38	2,027	62	3,277	51,201	58	36,406	42	87,607

Source: Loan trial balance and Loan Density Analysis Report.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans within the assessment area to individuals of different income levels is satisfactory. To determine the bank's performance of lending to borrowers of different incomes, we sampled 20 consumer loans originated between January 1, 2002 and June 30, 2004. For the analysis of consumer loans, we used the appropriate median family income information for each of the corresponding years. The following table provides detail on the bank's distribution by borrower income for the consumer loan sample.

Borrower Distribution of Consumer Loans in Tomball								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Households in AA	% of Number of Loans	% of Households in AA	% of Number of Loans	% of Households in AA	% of Number of Loans	% of Households in AA	% of Number of Loans
Consumer Loans	11.54%	15.00%	10.96%	15.00%	15.24%	60.00%	62.26%	10.00%

Source: Loan sample and 2000 U. S. Census Data.

As illustrated by the tables above, the distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among individuals of low- and moderate-income levels.

Lending to businesses of different sizes is also reasonable and meets the standard for satisfactory performance. Our sample included 20 commercial real estate loans originated between January 1, 2002 and June 30, 2004. Findings from this analysis are reflected in the table below.

Borrower Distribution of Loans to Businesses in Tomball		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	65.73%	4.15%
% of Bank Loans in AA by #	70.00%	30.00%
% of Bank Loans in AA by \$	44.31%	55.69%

Source: Loan sample; Dunn and Bradstreet data.

* 30.12% of AA businesses did not report revenue data.

Geographic Distribution of Loans

An evaluation of the geographic distribution of loans would not be meaningful because the bank's assessment area contains only middle- and upper-income geographies.

Responses to Complaints

TNB has not received any complaints about its performance in helping to meet the assessment area credit needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.